



real estate

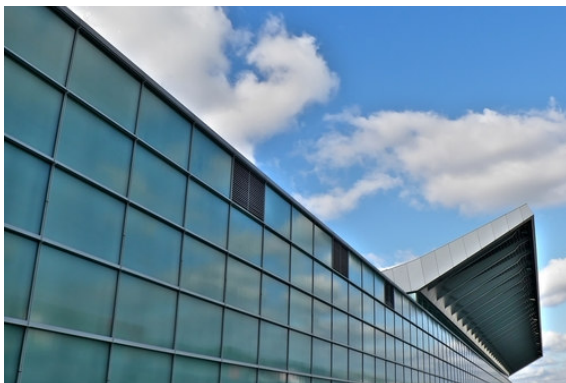
Tax Depreciation

The Benefits of a Cost Segregation Study - Poland

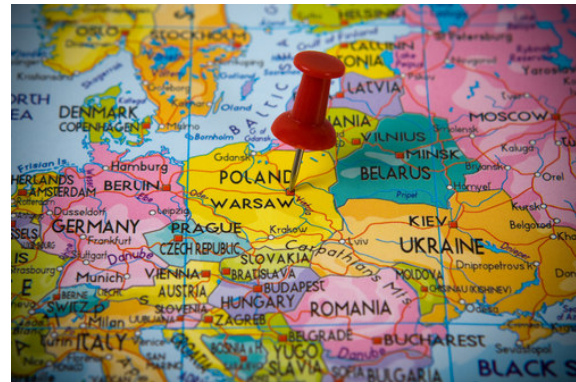
Our experience and procedures allow us to optimise the outcome of cost segregation studies to produce real benefits through the acceleration of the tax deductions.

We will work with our local partner **BDO Numerica S.A.** to ensure compliance with all technical and regulatory issues specific to Poland.

Tax depreciation rates applied to buildings and fixed assets are a reflection of the useful economic life of the whole or part. In order to segregate an item, it is necessary for it to have a different life, as well as being capable of physical separation without causing damage and perhaps having a degree of visual separation.



The concept of using a cost segregation study to access higher rates of tax depreciation is largely untried and may be subject to verification by the Polish tax authorities and the individual tax inspector. Ultimately the outcome may vary from case to case.



Some Examples

In order to demonstrate the potential benefits of a cost segregation study on a new construction project, we have compared the net present value of the tax saving that could result for various building types, rather than depreciating the whole of the building cost at 2.5%.

We have assumed a discount rate of 5%, application of the double declining balance method where possible and a monthly deduction for depreciation. The saving is expressed as the percentage gain over doing nothing:

Building Type	After 10 Years	After 20 Years
High quality city office scheme	27%	12%
Business hotel in urban location	91%	47%
Supermarket shell and fit-out	94%	49%
Multi franchise car dealership	31%	16%

How it Works in Poland

Business income is subject to Corporate Income Tax at 19%. Depreciation is allowed as a tax deductible cost.

The main categories of assets and their statutory annual tax depreciation rates are shown in the table below:

Group	% Rate
1 Buildings and premises	2.5 (see note 1)
2 Civil engineering works	2.5 to 4.5 (see note 2)
3 Boilers and energy producing machines	7.0 to 14.0
4 General machines, devices and equipment	7.0 to 18.0
5 Specialist machines, devices and equipment	7.0 to 25.0
6 Technical devices	4.50 to 25.0
7 Means of transport	7.0 to 20.0
8 Movable property and fittings	10.0 to 25.0

*Note 1: Residential buildings 1.5%.
Other specific types 4.5 to 10%*

Note 2: Specified works 10 to 20%

Depreciation allowances for groups 1 and 2 are calculated using the straight-line method. During the whole period of use of a specified asset, a taxpayer can deduct equal write-offs calculated by multiplying the maximum rate and the asset's initial value until the total value of write-offs equals the initial value.



For groups 3 to 6 and 8 (plus vehicles excluding passenger cars), the depreciation rate may be increased by a factor of up to 2.0 and the declining balance method applied. The basis of the calculation is the net value of fixed assets (initial value reduced by earlier annual write-offs).

The declining method is applied until the annual depreciation write-off equals the hypothetical write-off that would be made under the straight-line method. Once this moment is passed, depreciation is continued using the straight-line method.

Depreciation can be claimed on the cost of buildings, but not land. Higher depreciation rates can be claimed on fixed assets that are not built into the structure of the building. Whilst there is some discretion over the allocation of items, a taxpayer cannot arbitrarily allocate items to asset codes.



The allocation must be made in accordance with The Ministry of Finance Decree and the Classification of Fixed Assets (KŚT). The KŚT includes guidance about how the asset codes should be applied, but the allocation of an item for tax depreciation purposes is at the discretion of the taxpayer.

In case of difficulty the taxpayer should submit an application to the Statistical Office in Lodz to obtain the official interpretation.

The taxpayer may choose to use lower depreciation rates than the maximum permitted under the law and may change the rates up and down from one year to the next. In Poland a tax loss must be utilized within five years, subject to restrictions on the amount of deduction in any one year. A cost segregation study producing additional deductions for tax depreciation will only be beneficial if they can be utilised within this time frame.

Tenant's Fitting-Out Works

It may be possible to depreciate such works under group 8 at 20% subject to the works being specific to the tenant's business requirements. On the other hand, if the works are simply completing the building or replacing works usually done by a landlord to make the building complete, then the normal rules will apply.

Property Acquisitions

A non-residential building more than 5 years old can be depreciated over a period equal to 40 years, less the age of the building. For example, a 28 year old building may be depreciated over a period of 12 years. The depreciation period for buildings and structures, however, cannot be shorter than 10 years. A building less than 5 years old is treated as a new building and the normal rules apply.

A residential building more than 5 years old can be depreciated using the 10% rate.

Some building components may be depreciated separately by the purchaser in the same way as for new building construction.

The key issue to note is that the allocation must be concluded prior to contract completion.

The correct allocation of costs between equipment, buildings and land is essential to realise the full benefit of the available deductions and specialist advice is essential. Indeed, in Poland the valuation of the land component within the purchase price must be undertaken by a recognised valuation expert.

If the buyer has to subsequently modernise the building and the cost is greater than 30% of the purchase price, the depreciation rules applying to used buildings can be adopted, assuming the costs were incurred before the property was first entered into the inventory of the taxpayer.

A buyer of a fixed asset in Groups 3 to 6 and 8 that has been used for more than 6 months or modernized at a cost greater than 20% of purchase price will typically be able to depreciate the asset over 60 months.

Davis Langdon

The Banking Tax and Finance team at Davis Langdon LLP, a leading international construction and property consultancy, delivers managed solutions for clients investing in construction, infrastructure and real estate, independently representing client's interests, reducing risk and maximising value.

The tax depreciation team at Davis Langdon is built upon the specialist expertise and experience of Crosher & James, for many years the UK's leading independent Capital Allowances consultants prior to the merger in 2001.



Tax and Accounting Services

BDO Numerica are leading advisers to owner-managed mid-corporate businesses in Poland, offering a full range of services including audit, due diligence, tax advisory, financial outsourcing, corporate finance and IPO services.

The BDO Nordic Park office in Warsaw specialises in servicing international investors and in the last 16 years has helped clients invest more than €1 billion in the Polish economy. The firm has built up specialist knowledge in property investment and development, professional services firms, web-based services and manufacturing and currently assists clients in managing more than €4 billion of assets.

Valuation

Polish Properties Sp. z o.o. was established in 2004 in response to demand from both private and institutional property investors seeking a discrete property due diligence and valuation service in Poland. Under Polish law it is illegal for anyone to undertake valuation reports unless "qualified". Polish Properties undertakes all types of valuations on a wide range of property types for a variety of clients.

tax depreciation specialists

Rachel Sanders - rachel.sanders@davislangdon.com - +44 20 7061 7141
 Andrew Green - andrew.green@davislangdon.com - +44 20 7061 7163
 Heather Atkins - heather.atkins@davislangdon.com - +44 20 7061 7155

www.crosherjames.com